Property Tax in Vietnam: The Potential for Reform

BY TRINH HONG LOAN AND WILLIAM J. MCCLUSKEY, PH.D.

Vietnam is a transitional country presently undergoing economic and other major structural reforms. Whilst it has retained the ideals of socialism, it has adopted policies more aligned to that of a market economy. Current property-based taxes, which are important sources of revenue for government, indicate a fragility in terms of their sustainability. These taxes are mainly one-time event taxes and are not considered recurrent forms of property taxation. Revenue from these sources is declining and their reform is imperative. The Tax on Buildings and Land, which is levied only on land, has potential if it were re-engineered to reflect actual land values. This article contends that reform is possible, and as the property market continues to mature, there should be sufficient data upon which a value-based property tax could be introduced.

The property tax exists in most countries throughout the world (McCluskey 1999). In both principle and practice, this tax can have important fiscal and nonfiscal benefits (Bird and Slack 2004). The revenue that such a tax produces is often of critical importance to local and higher levels of government. However, its design, administration, and political support are fundamental components to ensure that the tax works effectively and efficiently (Bahl 1998).

The property tax has historically been viewed as a local tax given that the tax base is immobile and located within a local jurisdiction (Fischel 2001). It also has been viewed as a key element in fiscal decentralisation in which local governments should raise their own revenue to meet local expenditures. There are clearly important advantages to having a property tax as one of the revenue tools for government (Bahl and Linn 1992). However, it is equally important that the tax be administered in a fair and equitable manner to minimise any distortions and adverse effects such as regressivity (Bell 1999).

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This article provides an analysis of the property tax system as it currently operates in Vietnam. The discussion highlights the fragility of the current system in terms of revenue sustainability as it is based on declining revenue sources. The existing taxes are analysed and weaknesses identified. Effective tax rate analysis points to problems with the regressive nature of the current property tax. Suggestions are proffered on how the system should be re-engineered to align it more closely with international practice.

Legal Framework

The chaos in the aftermath of the war and the urgent need to rebuild communities and infrastructure along with other state priorities detrimentally affected any progress towards land management reform. As a member of the socialist bloc, the principle of a state-commanded economy was adopted although a more liberal approach to market-based policies was introduced over time. A summary of the provisions regarding land ownership in the Vietnamese constitutions and Land Laws is provided in table 1.

At first, the State essentially took control of many aspects of political life that impacted the population, such as housing and land-use allocation. The State became the owner of land and assumed responsibility for allocating land and/or housing to the population. Since land was deemed to be a public asset, land management and the development of cadastral maps were given a low priority by the government. During the period 1975–86, land administration was effectively ignored and during this post-war period, land was considered a

Table 1. Legal framework of land ownership

Constitutions	Land Laws
1946—First Constitution State ownership, common ownership, collective ownership, organisation ownership, household ownership, and individual ownership of land.	No land law applicable
1959—Second Constitution State ownership and collective ownership.	
1980—Third Constitution Land ownership by the People. Land was allocated without payment. State has the right to recover the land in case of necessity and allocate new land upon demand.	1988—First Land Law Legalizes the allocation of land from cooperatives to households.
1992—Fourth Constitution Land ownership by the People. Vietnamese economy develops as a "Market Economy with Socialist Orientation."	1993—Second Land Law State grants five rights to land users: exchange, transfer, lease, inheritance, and mortgage. Land is recognised as having value and land price is set by the State to regulate the economic relationship between the State and land users. State protects land rights by issuing Land Use Right Certificates to land users.
	2003—Third Land Law State is the representative owner of all land and establishes legal framework for land by deciding land-use planning, land-use purpose, and land-use holding. State grants to users of land for residential or business purposes the right to exchange, transfer, lease, donate, inherit, mortgage, guarantee, and use as capital contribution. Any land recovery or expropriation is compensated by the State.
	Amendment of Third Land Law is in preparation.

Source: Based on Vietnamese constitutions and land laws since independence in 1945

monopoly asset of the State. A real estate market economy did not exist. Land was assigned to individuals, organisations, and other public enterprises on the basis of their residential, industrial, and commercial requirements.

One of the key drivers that led to the introduction of post-war land laws was the need to address the declining level of food production and, in particular, rice production. The policy of agricultural co-operatives started in the north in 1950 and was applied to the south in 1975 after the war. This change led to a significant decline in agricultural output until the mid-1980s. With the country facing extreme food shortages, the perceived solution was to develop a more efficient way to maximise the production of food. Hence, the first Vietnamese Land Law was approved in 1988. Its purpose was to facilitate the allocation of agricultural land from the co-operatives to individual households based on a secure form of tenure. Allocations are based on the number of household members and typically last for a period of 10 to 15 years. Allocations can be renewed. Households do not have to pay rent for the land, but they do pay an agricultural land-use tax. By normalising land assignment for agricultural production, this policy had a significant impact on the growth of food production.

In addition to allocating the use of agricultural land, land-use rights to nonagricultural land were assigned to families and other organisations. These usage rights were essentially nontradable assets with no legal means for the rights to be exchanged. Nevertheless, a fairly active, but rather informal, real estate market developed. During the period of 1991–93, Vietnam experienced its first real estate bull market as real estate prices increased tenfold (Dang 2007). However, the legal framework was grossly inadequate to support this emerging immature real estate market.

This new socio-economic environment required an appropriate land law to provide a new set of legal rules to manage the land and its relationship to the agricultural economy on one side and the need for infrastructure development to service an industrial economy on the other. A revised land law was therefore promulgated in 1993. The law aimed at building a legal framework to promote the commercialisation of agricultural products. Households using land benefited from five rights: land exchange, transfer, lease, inheritance, and mortgage. For the purpose of exercising these rights, the land law was to provide land use right certificates (LURC) to occupiers of both agricultural and nonagricultural land. However, due to various administrative complexities and the resultant delays, the process will not be finished until the end of 2010.

This land law defined three aspects that clearly strengthened the rights allocated to land users and effectively conceded the existence of a real estate market: firstly, the law codified the allocation of the five rights in land; secondly, the state conceded the existence of a "market value" for land and defined the price for land lots and sites; and thirdly, the land law formalized land allocations by providing land use right certificates. However, the law did not take into account certain fundamentals of land management in a fast-growing transitional economy. Among these were the burden of infrastructure development and the need for the fast and efficient transfer of land from agricultural to industrial and residential uses.

The State passed this law before it decided on the direction of industrialisation and modernisation. The subsequent revitalization of socio-economic development, industrialisation, and modernisation required further improvements in land policy and legislation. Based on a comprehensive review of the previous 10 years, a new land law was passed in 2003. This law was intended to clarify the principle of the population's ownership of land with specific benefi-

cial rights and the role of the State as representative owner. It improved land policy for the agriculture sector whilst at the same time provided support on land policy which assisted the process of industrialisation and modernisation.

Land-based Revenue in Vietnam

Land represents a valuable asset that requires optimum utility. How to ensure an appropriate and optimal allocation and utilisation of land poses a serious challenge to transitional countries such as Vietnam. Land represents an important asset that is of concern to the population as well as government. Furthermore, land-use revenue is an important source of funds for the national budget. Despite implementation drawbacks, land-related revenue in Vietnam was based almost exclusively on the Agricultural Land Use Tax. The 1993 Land Law recognised that land had value, albeit through a government-based land "pricing mechanism." In addition, levies were set for new revenues based on a land-use charge, land rental, and the sale of State-owned housing. Figure 1 illustrates the importance of these land-based revenues for central government. Whilst such revenue is modest in comparison to the total taxes, charges, and fees, it nonetheless is a significant source of revenue.

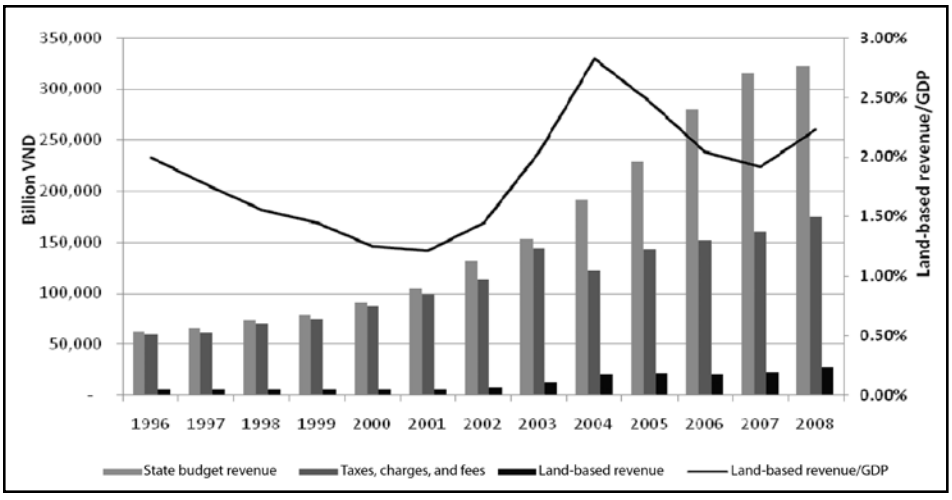
In the Vietnamese budget, no distinction is made between real property taxes and other real estate revenue sources. Besides the transfer tax levied when land users sell their land-use rights, there are two main forms of revenue: the single-event revenue sources and annual revenues. The single-event revenue is obtained primarily from a land-use charge, land rental, and the sale of State-owned housing units in addition to other related fees. The annual revenues are derived from the Agricultural Land Use Tax and the Tax on Buildings and Land.

Land Use Charge

The Land Use Charge is levied when the State allocates land for use by individuals and organisations. It also is paid when the land use is changed, for example, from rented to allocated land or from a charge-free allocated land use to a charge-paid one. When agricultural land is changed to a nonagricultural land use, the Land Use Charge must be paid according to specific land categories. The charge is based on land prices determined by local authorities.

Levies on land use are an important source of revenue for the State and represent approximately 61 percent of all real estate revenue in the national budget. According to discussions in the

Figure 1. Income from land-based revenue in Vietnam



Source: Based on data from General Statistics Office and Ministry of Finance

Hanoi Parliament in November 2008, this revenue constitutes up to 46 percent of municipal budgets.

The Land Use Charge is based on "official prices" which are 50 to 70 percent lower than the real market value of land. In order to obtain more accurate estimates of the real value, the 2003 Land Law stipulates that land allocation for construction projects must be subject to open bidding procedures. As a result, the revenue from the Land Use Charge rose sharply, from 1,173 billion VND in 1996 to 8,149 billion VND in 2003 and more than 16,500 billion VND in 2008 (1 million VND = US$ 53.59). It is anticipated that the bidding policies will be extended and strengthened in order to establish a framework for more accurate estimates of market value.

It is important to note, however, that the Land Use Charge is a one-time payment and does not generate recurrent revenues for the national government. It is anticipated that revenue from this source will decline in the future as more land is allocated with land-use rights.

Land Rent

The 2003 Land Law stipulates that land tenants can be individuals, corporations, joint-venture companies, foreign companies, or foreign diplomatic organisations. Under the law, users of land that is leased for residential, commercial, or other professional activities must pay a land rental charge. The rental rate is fixed from the time the land is first occupied. Users can choose to pay the rent for the entire lease term in one lump-sum payment or in annual installments. Land leases can be renewed. Land rents as with most other taxes are remitted to the central government with any future disbursement made from the central pool.

Land rent as a revenue source exhibits a number of problems. One is the use of relatively low rental rates. This shortcoming can be attributed in part to the lack of competence of local governments in setting rents notwithstanding the existence of central regulations on rental pricing. Indeed, local governments sometimes decide to reduce rents or not collect them at all as an incentive for investment, to promote social goals such as providing housing for disabled persons or war veterans, or for other purposes.

Sale of State-owned Housing

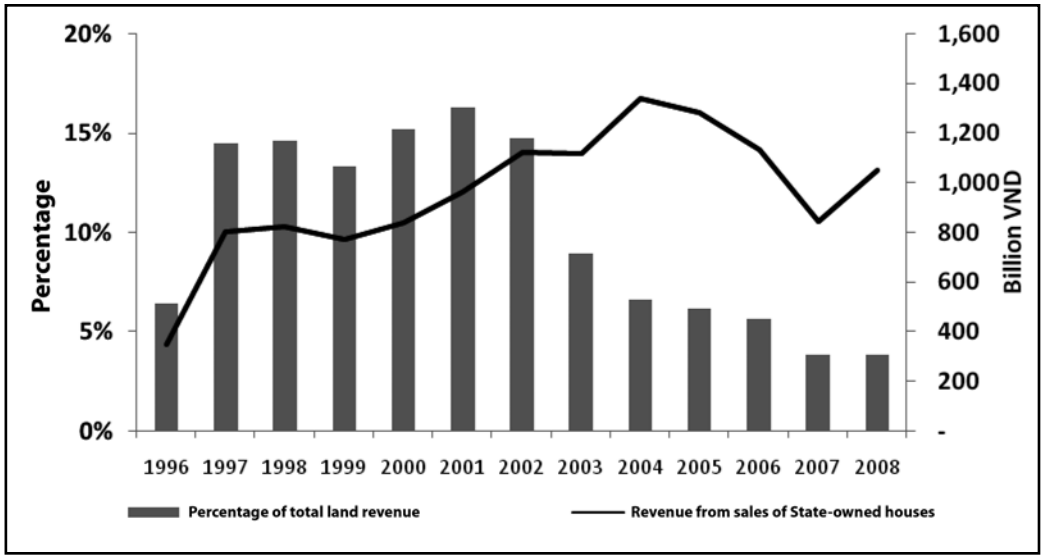
In 1994, the State introduced a program that allowed residents of state-owned housing units to purchase rights in the property. This program has been extremely successful in terms of the number of properties sold. Since implementation, approximately 45 percent of the State-owned housing stock has been sold representing close to 256,000 apartments comprising 11.6 million square metres (Ministry of Construction 2007). Figure 2 illustrates the early growth in the sale of State-owned houses and the subsequent drop in revenues as the number of properties being sold has declined.

Tax on Transfer of Land Use Rights

The State in 1999 implemented a tax on the transfer of land-use rights. Tax rates were set at 10 percent for transferred agricultural land and 20 percent for the transfer of nonagricultural land-use rights. Currently, the registration rate of transferred properties is estimated to be only about 30 percent of all real estate transactions. Since January 1, 2009, the Tax on Transfer of Land Use Rights has been imputed to the corporate tax and personal income tax. The seller can choose to pay personal income tax on 25 percent of the capital gain or 2 percent of the transaction value.

The re-engineering of the land transfer tax into a corporate tax and a personal income tax has led to difficulties of perception due to the absence of a rigorous method for determining the real estate capital gain. An appropriate system of market value appraisal of individual properties is fundamental to determining the correct taxable value. Without a regular inventory of market data registration, it is

Figure 2. Revenue from the sale of state-owned houses



Sources: General Statistics Office and Ministry of Finance

difficult to determine the fair market value of each transaction. It also makes it impossible to distinguish the gain derived from the land user's investment and the added value generated by public investment. In most of the cases, the fiscal administrators are unable to identify the true value of the land including the improvements. Authorities tend to rely primarily on a process based on the owner's self-declaration.

Agricultural Land Use Tax

One of the most important land-based taxes in Vietnam is the Agricultural Land Use Tax introduced in 1993. The legislation covers all organisations and individuals using land for agricultural production. The tax applies to the use of cultivated land, water surfaces used for aquaculture, forest land, and any economic entity allocated agricultural land. There are three fundamental components of the tax base: the land size, the land categories, and the tax liability applied to each category. The law stipulates six categories for annual harvest and aquaculture land and five for long-term production land (see table 2). The land classification is based on five physical characteristics which include land fertility, location, topography, climatic conditions, and irrigation.

Interestingly, the tax liability is based on the land's productive capacity as measured by "kilograms of rice" though the tax payment must be made in currency. Provincial and municipal authorities are responsible for determining the rice rate, based on local market prices. This amount cannot be less than 90 percent of the average price.

In line with international trends to reduce the tax burden on agricultural production, the government in 2003 introduced an exemption based on the "standard" land unit assigned to agricultural families, to poor communes, and to agricultural cooperatives (National Assembly 2003, Article 1.1). A 50 percent reduction of the Agricultural Land Use Tax is provided to all other taxpayers. Other exemptions are available on agricultural land in mountain locations, maritime areas, and poor regions.

Table 2. Agricultural Land Use Tax liability

Land categories	Land for annual harvest and aquaculture (kg of rice/hectare)	Land for long-term production (kg of rice/hectare)
1	550	650
2	460	550
3	370	400
4	280	200
5	180	80
6	50	

Source: Article 8 of Decree 74/CP, October 25, 1993

These tax reduction and exemption policies have resulted in a sharp decline in revenues obtained from taxes on agricultural land use. The impact can be clearly seen in the diminishing revenues over the last decade (figure 3). In Hanoi, for example, the Agricultural Land Use Tax represented 0.83 percent of all land-based revenue in 2001 and only 0.014 percent in 2006 (Hanoi Taxation Department 2008). At the national level, this revenue represented 3.05 percent of the total budget in 1996, 0.07 percent in 2004, and 0.03 percent in 2008 according to data from the General Statistics Office and Ministry of Finance.

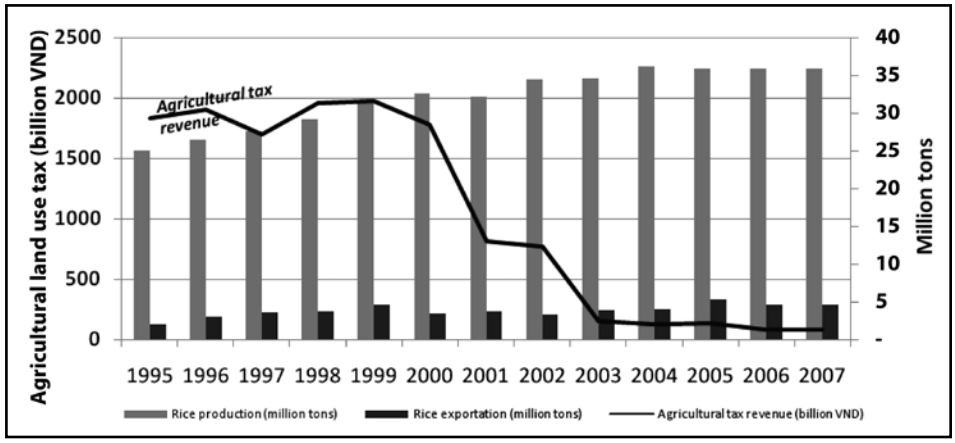
Tax on Buildings and Land

The Tax on Buildings and Land is levied on nonagricultural land and on buildings (that is, the improvements made on the land). However, at present, these improvements are tax exempt. The contribution of this tax to the budget has increased annually in absolute terms, but it has declined sharply in percentage terms. Figure 4 shows the revenue raised in actual and percentage terms.

Fragility of the Land-based Revenue Structure

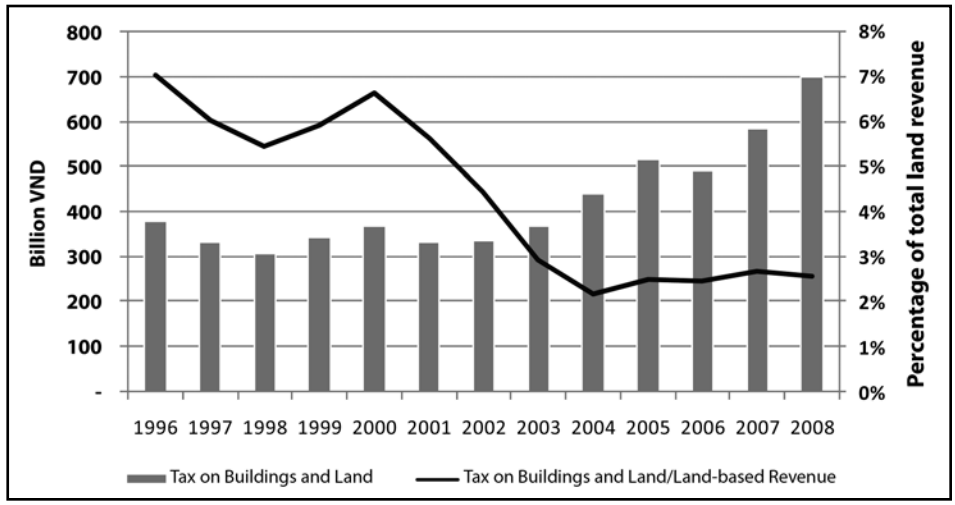
In Vietnam, land use charges, land rental, and the selling of State-owned

Figure 3. Agricultural land use tax



Sources: General Statistics Office and Ministry of Finance, 1995–2007

Figure 4. Revenue from the Tax on Buildings and Land



Sources: General Statistics Office and Ministry of Finance

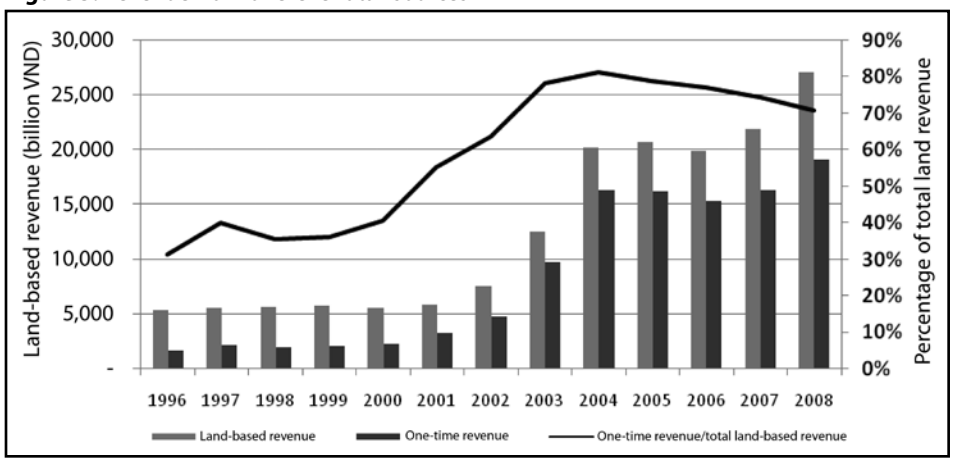
houses represent significant sources of revenue derived from land. However, they cannot be considered sustainable taxes because the revenue is received from one-time transactions as opposed to recurrent annual taxes. Income derived from these sources also tends to be variable, unstable, and unpredictable which in turn causes budgetary forecasting issues for the central government.

Prior to 1994, land-related revenue was obtained almost exclusively from the Agricultural Land Use Tax. Then, new sources of revenue from land were introduced including the Land Use Charge, the Land Rent, and the Sale of State-owned Housing. Beginning in 2004, with the exemptions and reductions in the Agricultural Land Use Tax, land-related revenues underwent significant changes. Even though revenue from the Agricultural Land Use Tax declined from 1,902 billion in 1996 to 82 billion in 2008, total revenues from land grew exponentially from 5,421 billion VND in 1996 to 27,068 billion in 2008. Income from the sale of State-owned housing reached 1,338 billion VND in 2004 and 1,051 billion in 2008. Revenue from land-use charges grew by more than 14 times during this period.

However, looking more closely at the revenue structure, there are some concerns from an economic standpoint. As previously noted, land-use charges, land rentals, and State-owned housing sales are essentially one-event revenue sources. Among these three sources, the Land Use Charge represents the most important source of national government income, accounting for more than 70 percent of revenues in 2004 and 61 percent in 2008. In a way though, by allocating land to individuals and other organisations, the State is, in effect, selling its property rights to the land users. This is similar to the one-time revenue from the privatisation and sale of State-owned enterprises. As a natural consequence, this revenue source will decline as more land is allocated to the private sector. The national budget requires sustainability, but this cannot be guaranteed since these one-event revenue sources have a finite life. This reality reveals the fragility of these land-based taxes and charges as illustrated in figure 5.

The forgoing analysis would suggest that it is imperative to develop sustainable revenue sources that have the capacity to meet the shortfall in revenue caused by the declining importance of the Land Use Charge. Having one-event-based revenue sources contributing some 70 percent of total budget revenue is an over-reliance on a falling revenue base. Other revenue sources need to be considered. The Tax on Buildings and Land is a possible alternative, but it

Figure 5. Revenue from one-event tax sources



Source: Based on data from General Statistics Office and Ministry of Finance

currently raises only about 2.58 percent of land-based revenue and represents just 0.06 percent of the country's gross domestic product (GDP).

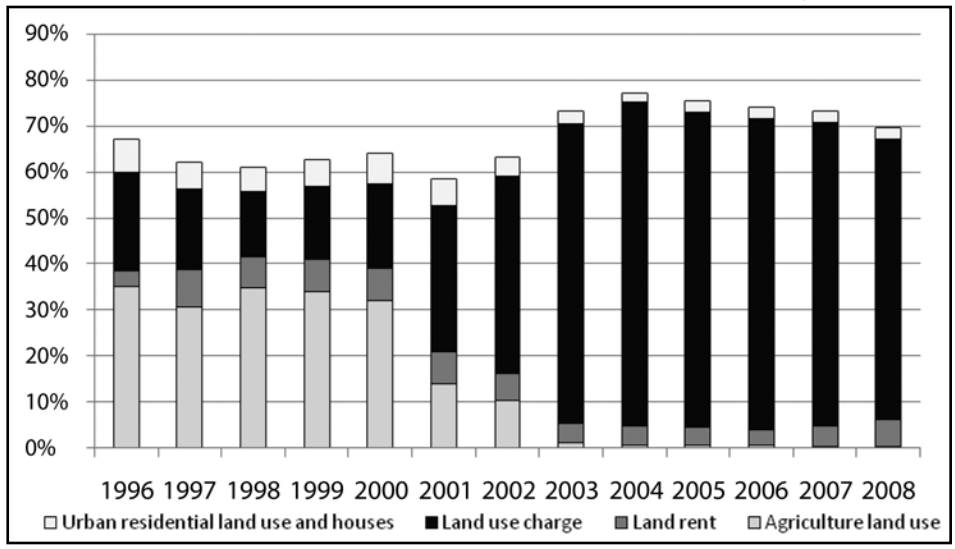
From a budget-forecasting perspective, it is important to balance budget revenues by developing sustainable income from sources such as the annual taxes based on agricultural and nonagricultural land uses. As noted earlier, the current Agricultural Land Use Tax is, in fact, a tax on production based on land size. However, the reality is that due to exemptions and reliefs, revenue from this source is declining. An annual tax on commercial, industrial, and residential land and improvements has significant potential. These taxes require additional consideration in terms of their optimisation and potential. Figure 6 highlights the imbalance among the land-based revenue sources in Vietnam. The income from the annual Tax on Buildings and Land declined sharply from 7 percent of all land-based revenues in 1996 to only 2.5 percent in 2008. This clearly represents an unsustainable taxing structure for the government. Recognition of this situation is required to resource the sustainable land and property-based taxes as potential major future revenue sources.

The Current Real Property Tax System

The Tax on Buildings and Land was introduced in 1992 and amended in 1994. It focuses on possessors of use rights to nonagricultural land for residential, commercial, and industrial purposes. Despite its name, the tax is applied to land only. Buildings and other improvements are exempt. The tax is not an ad valorem tax. It is not calculated on market value but rather is area based. Variable tax rates are applied according to different categories and location factors to reflect land productivity. In other instances, variants of area-based assessment are used. As an example, the assessment rate per square metre can be adjusted by a coefficient to reflect the location of a property within a particular zone in a city.

The tax liability is determined on the basis of the land area, land categories, and the tax rate. Land categories are determined according to the following criteria: fertility, location, relief, climatology, weather, irrigation, and productivity. This tax is difficult and expensive to administer, considering the lack of available data at the local level to assess and reassess land. As a result, land categories

Figure 6. Proportions of one-event revenues and annual taxes from real property



Source: Based on data from General Statistics Office and Ministry of Finance

lack any real correlation with the true value of land.

The Tax on Buildings and Land was enacted prior to the 1993 Land Law. The tax rate is calculated in a similar manner to the tax on agricultural land use (see table 3). The land and housing tax utilises the same methodology of multiplying the kilogram of rice per unit land area by the rice price stipulated by the provincial People's Committee. This figure is then multiplied by a tax rate coefficient which ranges from 3 to 32 times the tax based on the agricultural land use for the highest category of land in the same region. Urban land is classified into categories in accordance with governmental regulations accounting for location and transportation facilities (Decree on Land and House Tax 1993, Article 6).

Table 3. Comparison of agricultural land use tax and real property tax

Tax categories	Tax base	Tax burden calculation	Adjustment
Tax on agricultural land use	Area	Kilogram of rice per area unit × rice price	Five land categories
Tax on land and housing (real property tax)	Area	Agricultural Land Use Tax × coefficient × rice price	Differentiated according to land categories: (1) land classification; (2) rural, suburban, or urban area; (3) location

Source: Based on Agricultural Land Use Tax Law (1993) and Decree on Land and Housing Tax (1994)

Therefore, the real property tax is based on the highest agricultural land category which effectively ignores the fundamental rules of land value. Agricultural land clearly does not have the same productive capability as nonagricultural land. Hence, commercial and industrial land should be valued using different criteria than that used to value agricultural land.

Applying a fiscal decentralisation policy, the district level supports the responsibilities of land valuation and classification. This competence requires important investment and highly specialised skills in geology, geography, hydrology, rural economics, and valuation. In most instances, the decentralised entities do not have sufficient personnel or the financial resources to fulfil this function. Neither do local governments have the means to ensure the equity and efficiency of the assessment system which can result in poorly determined tax assessments.

Because the agricultural land categories are determined locally, it creates a major problem in applying this tax to urban areas. For example, Hanoi is not an optimal rice-producing area because the land does not offer appropriate conditions for intensive rice cultivation. However, residential and commercial land in Hanoi tends to be the most valuable in the country. Assessing commercial/industrial/residential land use for tax purposes based on rice productivity as opposed to commercial profits from these higher land uses is not appropriate (Dang 2008).

An additional shortcoming is the linkage to the price of rice in determining the tax burden. The law requires the use of the rice price for the year just prior to the tax year as determined by average prices in the local market. However, it is important to recognise that the market for rice may bear no correlation to real property values for nonagricultural land. During 2007 and 2008, for example, real estate prices increased whilst the price of rice did not change significantly. It seems apparent that the price of rice is not a relevant basis upon which to assess a real property tax. In reality, the price of rice is becoming an irrelevant indicator of wealth. Thus, the inequity among taxpayers will become greater and, more importantly, the State will not benefit from the growth in residential and commercial real estate values. It is important to review the bases for these taxes to correct these failures and to promote land use efficiency.

Tax Rate Analysis

The incidence of the property tax is of importance because it can indicate who is actually paying the tax. In order to analyse the situation in Vietnam, the effective tax rate was calculated for land in urban areas based on estimates of highest and lowest values.

The tax-rate coefficient is determined under the 1992 Ordinance as amended by the 1994 Ordinance on the Tax on Buildings and Land (Article 1). The numbers can range from 3 to 32. The coefficients shown in columns 3–6 of table 4 are related to specific types of urban areas such as main cities and then based on street categories and location. The first column in table 4 contains the urban area or town categories. There are 731 cities in Vietnam classified by population, economic indicators, public infrastructure, and services. The "special" category applies to important cities such as Hanoi and Ho Chi Minh City. The fourth and fifth categories refer to urban areas located in plateau and mountain regions. The six urban-area categories are determined by central government.

Table 4. Tax coefficients based on urban area, street category, and location

Urban-area categories	Street categories	Coefficients based on Agricultural Land Use Tax			
		Location 1	Location 2	Location 3	Location 4
Special (four street categories)	1	32	28	23	17
	2	30	26	21	14
	3	27	23	18	12
	4	25	21	16	9
Category I (four street categories)	1	30	26	21	14
	2	27	23	18	12
	3	25	21	16	9
	4	22	18	13	8
Category II (four street categories)	1	26	22	17	11
	2	25	21	16	10
	3	23	19	14	8
	4	21	17	12	7
Category III (four street categories)	1	19	17	13	8
	2	18	16	11	7
	3	17	14	9	6
	4	14	11	7	5
Category IV (three street categories)	1	13	11	9	7
	2	12	10	8	6
	3	11	8	7	5
Category V (two street categories)	1	13	11	8	8
	2	11	8	5	3

Source: Ministry of Finance. Part II, Circular 83TC/TCT of October 7, 1994, guiding the execution of Decree 94/CP of August 25, 1994, on Tax on Buildings and Land

Each urban-area category is further subdivided by four street designations classified by location, revenue generation, and infrastructure quality (Decree on Land Pricing 188/ND-CP, November 16, 2004, Article 10). Street categories are determined by the People's Committee of the province or municipality. Within each street category, land is designated according to four location categories based on the following criteria: Location 1—land fronting a street with good vehicle access, Location 2—land fronting a street with average vehicle access, Location 3—land fronting a street with no vehicle access, and Location 4—land having extremely limited access.

Thus, land located in the special urban-area category (main city) in street category 1 and location 1 has a tax coefficient of 32 which is the highest possible (see table 4). Local tax officials have the responsibility of determining the relevant coefficients based on urban-area and street categories.

For nonagricultural land use outside of urban areas, a coefficient of 2.5 applies to suburban land within the special category; a coefficient of 2 applies to the suburban land in categories I, II, III, and IV. In addition, a coefficient of 1.5 applies to land situated alongside main roads and a coefficient of 1 applies to nonagricultural land use in rural areas.

Table 5 illustrates the effective tax rate across the various urban areas. Columns 6 and 7 give the maximum and minimum land prices according to the urban-area category. As would be expected, the special urban area (main cities) has the highest land value whilst the poorest or lowest-value land is located in urban areas IV and V. The nominal tax (columns 3 and 5) is calculated based on the formula:

$$(550/10{,}000) \times COEFFICIENT \times 4{,}500$$

This formula is prescribed by legislation and is related to the price of rice per kilogram per square metre. There are 550 kilograms of rice produced per hectare, there are 10,000 square metres in a hectare, and the price of the rice is set at 4,500 VND per kilogram. Land located

Table 5. Tax rate analysis and comparison by urban-area categories

Urban-area categories	Highest rate		Lowest rate		Land price		Tax rate		Tax rate comparison
	Coefficient	in VND	Coefficient	in VND	Max. price (VND)	Min. price (VND)	Best land	Poorest land	
1	2	3	4	5	6	7	8 = 3/6	9 = 5/7	10 = 9/8
Special	32	7920.0	9	2227.5	67,500,000	1,500,000	0.01173%	0.14850%	13
I	30	7425.0	8	1980.0	42,500,000	400,000	0.01747%	0.49500%	28
II	26	6435.0	7	1732.5	30,000,000	150,000	0.02145%	1.15500%	54
III	19	4702.5	5	1237.5	19,500,000	120,000	0.02412%	1.03125%	43
IV	13	3217.5	5	1237.5	13,350,000	50,000	0.02410%	2.47500%	103
V	13	3217.5	3	742.5	6,700,000	30,000	0.04802%	2.47500%	52

Sources: Based on 2009 tax regulations and land pricing.

Note: The local price of rice in February 2008 was 4500 VND/kg

in the best location of the special urban category has a coefficient of 32. Thus the tax becomes:

(550/10,000) × 32 × 4,500 = 7,920 VND per square metre

As can be seen, irrespective of the type of land and its productive capacity, the only variable in determining the tax liability is the coefficient.

Based on the tax rates and land pricing currently in use in Vietnam, table 5 reveals something of a paradox in the relationship between the effective tax rates and the values of the land. Within each urban-area category, a higher effective tax rate applies to lower-value land indicating that there is a greater tax liability levied on the poorest and lowest-value land. This result implies that the users of the best and highest-value land pay less—an indication of an extremely regressive tax system.

As table 5 shows, the differences can be significant. For example, the poorest land located in the special urban area has an effective tax rate that is 24 times greater than the best land in the same location. The difference is even more startling when comparing the effective tax rates of the best and poorest land in urban areas IV and V. The figures there are 52 and 103 respectively. A similar observation can be made when the effective tax rates are compared for the best land in different urban areas. For example, the effective tax rate for the best land in the special urban area is three times less than the tax rate for the best land in urban area V (0.0332 percent in comparison to 0.0117 percent). These horizontal and vertical differences in effective tax rate between land of different values signify major inequity among taxpayers. It also underlines one reason why many people want to speculate and invest in real property located in the main cities: the effective tax burden is less in the cities in comparison to land located in rural areas.

However, an interesting question to consider is how well the system functions at a local level. Hanoi City region was used for this analysis and the results are presented in table 6. Hanoi is the most important administrative, political, and cultural city in Vietnam and is the location for universities, major hospitals, and important office and retail centres. In a transitional economy, the quantity and quality of services that local authorities provide to their suburban and rural populations tend to be much lower than those provided to citizens living and working in major urban areas, such as downtown Hanoi.

Table 6 indicates that the effective tax rate for the best land in the Hanoi Centre is 2.4 times lower than the lowest-value land in the same area and 10.5 times lower than the lowest-value rural residential land. From an economic perspective, this form of taxation is generating extremes

Table 6. Tax rate comparison inside Hanoi City region

Land categories	Coefficients	Tax liabilities in rice (kg)	Tax liabilities in VND	Official prices	Tax rate in 2009
1	2	3	4 = 3 × current rice price	5	6 = 4/5
1. Hanoi Centre (Hoan Kiem)					
Best land	32	1.76	7,920	67,500,000	0.0117%
Poorest land	9	0.495	2,227.5	7,800,000	0.0286%
2. First class (Cau Dien)					
Best land	19	1.045	4,702.5	18,000,000	0.0261%
Poorest land	9	0.495	2,227.5	5,600,000	0.0398%
3. Second class town (Soc Son)					
Best land	13	0.715	3,217.5	4,500,000	0.0715%
Poorest land	3	0.165	742.5	1,250,000	0.0594%
4. Rural residential land					
Highest-priced (Thanh Tri)	1	0.055	247.5	1,356,000	0.0183%
Lowest-priced (Soc Son)	1	0.055	247.5	200,000	0.1238%

Sources: Based on Decision 62/QD-UB of Hanoi People's Committee on Land Pricing, December 31, 2008; Department of Taxation regulations

in terms of regressivity. If land value can be used as a surrogate for ability to pay, then the current property tax system is favouring the wealthy at the expense of the poorer in the society.

Revenues from Real Property Tax

As the previous calculation showed, the highest rate of the urban residential land tax is 7,920 VND per square metre. Thus, the owner of a 100-square-metre parcel in the highest-value area of Hanoi has to pay 792,000 VND in taxes per year. The State reference price for this land is 67.5 million VND per square metre and the effective tax rate is 0.0117 percent.

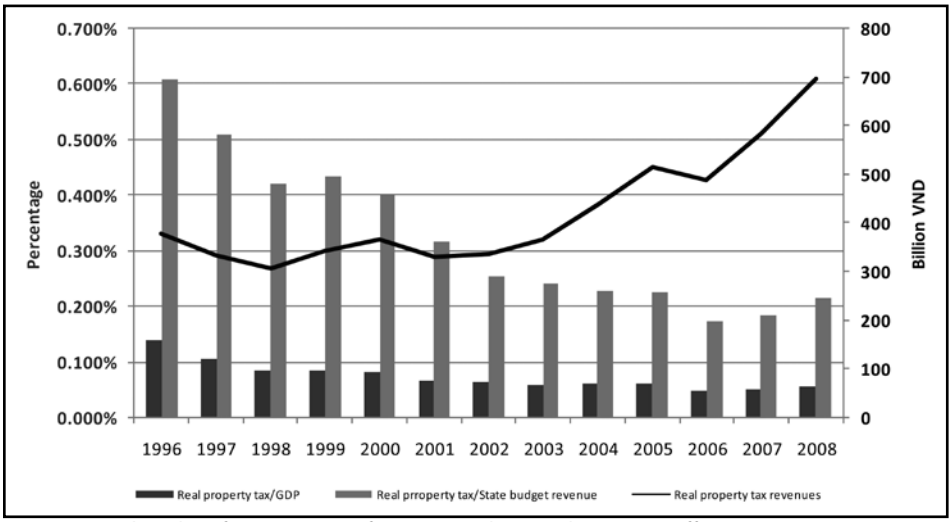
In absolute terms, income from the real property tax is increasing significantly, from 380 billion VND in 1996 to 698 billion VND in 2008 (figure 7). Nevertheless, its contribution to the national budget has declined over the same period, from 0.61 percent to 0.22 percent. It is interesting to note that the tax rate applied in other countries tends to vary from 1 to 4 percent of a property's market value. Former socialist transitional countries are aware of the potential that the real property tax has for national and local budgets. Many of these countries, shortly after adopting more market-based policies, started to reform their real property tax systems. Table 7 gives a brief summary of the systems in operation in four such countries and Vietnam. By comparison, the effective tax rates in Vietnam are considerably less than those in the other selected countries. There is clearly significant potential for the real property tax to grow in terms of revenue for local budgets.

Conclusions

This article has sought to examine a number of the important issues around property taxation in Vietnam. The research indicates that a fundamental flaw of the system is the government's reliance on declining property tax bases. Revenue from the Land Use Charge, Land Rent, and the Sale of State-owned Houses remains significant. However, their significance in revenue terms is declining as these taxes represent one-event charges as opposed to annual recurrent taxes. As more land is allocated and more residential property is sold to occupiers, the current trend of shrinking tax bases and declining revenues will only continue in the future.

The two main property taxes on land (as buildings and other improvements are not taxed) are the Agricultural Land Use Tax and the Tax on Buildings and Land. It is suggested that these two taxes have the potential to raise sufficient revenue to offset the declining revenue from other sources. However, the design of these taxes is currently flawed. The Agriculture Land Use Tax, which is based on rice productivity, has been significantly affected by the introduction

Figure 7. Real property revenue as a percentage of GDP and state budget revenue



Source: Based on data from Ministry of Finance and General Statistics Office

Table 7. Comparison of taxation systems in four east-European countries, Hanoi, and Vietnam

	Estonia	Latvia	Lithuania	Slovenia	Hanoi	Vietnam
Population	1,307,605	2,245,423	3,565,205	2,007,711	3,490,000	85,150,000
Area (sq. km)	45,226	64,589	65,299	20,273	921.09	331,212
GDP per capita (US$)	21,100	17,400	17,700	27,200	2,500	1,200
Growth rate 2007	7.1%	10.2%	8.8%	6.1%	12.7%	8.0%
Tax on real property	Land tax	Real estate tax (land and nonresidential buildings)	Building tax on property in commercial use; Land tax (not value-based)	Tax on buildings (built or buildable)	Tax on land only	Tax on land only
Tax base	Market value	Market value-based mass (cadastral) value	Buildings: Based on average market value; Land: normative value	Points per sq. metre; value-based property tax law pending	Land categories × coefficient × rice price	Land categories × coefficient × rice price
Tax rate	0.1%–2.5%	1% (reduced from 1.5% in 2007)	Buildings: 0.3%–1.0%; Land: 1.0%	Buildings: 0.1%–0.5%, based on use; Land: 2%	Land: 0.0117%–0.1238%	Land: 0.0117%–2.475%
Real property tax as percentage of all local revenue (2007)	7.2% (2005)	5.2%	4.6%	8.2%	1.629% of all municipal revenues	0.37% of fiscal revenues; 0.185% of all state budget revenues

Sources: Malme and Youngman (2008); based on data from Ministry of Finance and General Statistics Office

of broad exemptions and reliefs. The Tax on Buildings and Land, although directed at nonagricultural land, is linked to the Agricultural Land Use Tax. The tax liability is based on rice productivity and the price of rice. Although there is an adjustment made to reflect the location of the land, there is no direct correlation to the open-market value of the land.

Land prices in Vietnam, and in particular in the main urban areas, have seen significant growth. The current system of property taxation has not been designed to capture any of this increase in property wealth. The research in this article indicates that when land values are factored into the analysis, the current property tax is extremely regressive. Effective tax rates show that the users of the most valuable urban land pay considerably less that those users of lower-value land.

The findings of this work would suggest that the Tax on Buildings and Land could be re-engineered to remove the link to rice productivity and introduce a link to land values. The property market is maturing in Vietnam; there is evidence of sales and other transactions. Whilst the property registration system may require modernisation, there would appear to be sufficient market evidence upon which to consider a value-based land tax.

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